

**CITY OF MERRILL, IOWA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2015 THROUGH JUNE 30, 2016**

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## Officials

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Name	Title	Term Expires
<b>(Before January, 2016)</b>		
<b>Elected Officials</b>		
Richard Husman	Mayor	January, 2016
Roger Seiler	Council Member	January, 2018
Nick Hartman	Council Member	January, 2018
Val Hartman	Council Member	January, 2016
Bruce Norgaard	Council Member	January, 2016
Dan Pierson	Council Member	January, 2016
<b>Appointed Officials</b>		
Margaret Marienau	City Clerk	Indefinite
<b>(After January, 2016)</b>		
<b>Elected Officials</b>		
Richard Husman	Mayor	January, 2018
Roger Seiler	Council Member	January, 2018
Nick Hartman	Council Member	January, 2018
Vicky Hemmelman	Council Member	January, 2020
Bruce Norgaard	Council Member	January, 2020
Dan Pierson	Council Member	January, 2020
<b>Appointed Officials</b>		
Margaret Marienau	City Clerk	Indefinite

## **Independent Accountant's Report on Applying Agreed-Upon Procedures —**

To the Honorable Mayor and  
Members of the City Council  
City of Merrill, Iowa

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Merrill for the period July 1, 2015 through June 30, 2016. The City of Merrill's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of noncompliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Merrill, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Merrill, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Merrill and other parties to whom the City of Merrill may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
October 19, 2016

**Detailed Recommendations**



## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (A) **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system - performing all general accounting functions and having custody of assets.
- (2) Cash - handling, reconciling and recording.
- (3) Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Debt - recordkeeping, compliance and debt payment processing.
- (7) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll - entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Computer system - performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting - preparing and reconciling.

**Recommendation** - We realize that segregation of duties is difficult with the limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) **Certified Budget** - Disbursements exceeded the amounts budgeted in the public safety, public works, general government and business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

**Recommendation** - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (C) **Chart of Accounts** - The City has not fully implemented the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the CFC on September 25, 2002.

**Recommendation** - To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (D) **Financial Reports** - The City Clerk's reports to the City Council do not include comparisons to the certified budget by function.

**Recommendation** - To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's reports to the City Council should include comparisons to the certified budget by function.

- (E) **Disbursements** - We reviewed 30 disbursements, and it was identified that the City is not classifying disbursements by function in accordance with the recommended COA.

**Recommendation** - The City should classify disbursements by function in accordance with the recommended COA.

- (F) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

**Recommendation** - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

- (G) **Reconciliation of Utility Billings, Collections and Delinquent Accounts** - While a delinquent account listing was prepared monthly, utility billings, collections and delinquent accounts were not reconciled throughout the year.

**Recommendation** - Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review of the reconciliation should be evidenced by the signature or initials of the reviewer and the date of the review.

- (H) **Payroll** - Wages being paid to employees are not approved on an annual basis. Three of the five employee checks tested could not be traced to an approved rate. In addition, one employee was paid overtime with no supporting documentation and one timesheet did not include evidence of approval.

**Recommendation** - All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure payroll rates are approved by the City Council and documented in the employees' personnel files.

- (I) **City Council Minutes** - Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include total disbursements from each fund. All four of the monthly minutes reviewed were not published within 15 days and did not include total disbursements from each fund.

**Recommendation** - The City should comply with the Code of Iowa and publish the City Council minutes within 15 days and include total disbursements by fund in the minutes.



## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (J) **Financial Condition** - As of June 30, 2016, the City had a deficit balance in the Water Fund.

**Recommendation** - The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

- (K) **Payment of General Obligation Notes** - The City has not established a Debt Service Fund and is paying general obligation notes from various funds. Chapter 384.4 of the Code of Iowa states in part, "Monies pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund."

**Recommendation** - The City should establish a Debt Service Fund and make transfers into this fund for future funding contributions. Payments on the notes should then be made from the Debt Service Fund as required.

- (L) **Bank Reconciliations** - The cash balances in the City's records were reconciled to bank account balances throughout the year. However, the outstanding check list did not contain the payee or date written.

**Recommendation** - The outstanding check list should detail the payee and date written in addition to the check number and amount outstanding.

- (M) **Financial Reporting** - Note proceeds of \$44,491 were advanced directly from the lender to a vendor, and the transaction was not reflected in the City's records.

**Recommendation** - The City's records should reflect all revenue and disbursements, including proceeds from loans and the expenditure of those proceeds.

- (N) **Annual Financial Report (AFR)** - The beginning fund balances for the governmental and proprietary activities did not agree to the prior year ending fund balances reported in the June 30, 2015 AFR.

**Recommendation** - The City should ensure that the current year AFR beginning fund balances agree with the prior year ending fund balances.

- (O) **Deposits** - The City received a \$100 check from the State of Iowa for a tobacco fine that was cashed but was never deposited into the City's bank account.

**Recommendation** - The City should establish procedures to ensure that all receipts are deposited into the City's bank account.